

## EXECUTIVE SUMMARY

### OVERVIEW

The Debt Collection Improvement Act (DCIA) of 1996 requires all Federal payments (excluding tax refunds) to be made electronically by January 1, 1999. The Financial Management Service (FMS) of the Department of the Treasury is responsible for overseeing the implementation of the EFT provisions of the DCIA. This includes working with Federal benefit agencies to convert existing benefit check payments to direct deposit or other EFT payments. Toward this goal, FMS contracted with Booz·Allen & Hamilton and Shugoll Research for a four-phase research effort that will shape the future marketing efforts aimed at individual recipients of Federal benefit checks.

Phase 1 of this project was a secondary review of information on this issue based on articles, books, reports of research studies, and interviews with knowledgeable sources.

Phase 2 involved nine focus groups of Federal benefit check recipients held in four geographic markets (Philadelphia, Tampa, Kansas City, and San Diego). These nine groups were divided so that three groups each were conducted with retirement check recipients, disability check recipients, and SSI check recipients.

Phase 3 involved a telephone survey of 1,000 Federal benefit check recipients or their financial guardians. Interviews were with beneficiaries from different programs as follows: Social Security Administration (SSA)—500, Supplemental Security Income (SSI)—150, Department of Veterans Affairs (VA)—150, Office of Personnel Management (OPM)—100 and Railroad Retirement Board (RRB)—100. Within each program, the research team selected respondents randomly from lists of Federal benefit check recipients for whom telephone numbers were available.

Phase 4 involved a mail survey sent to 1,811 Federal benefit check recipients who were not eligible for the telephone survey because telephone numbers were not available for them. The number of surveys mailed to check recipients from different agencies was proportional to the number of unmatched telephone numbers from the original sample lists, which resulted in a higher proportion of SSI and Social Security retirement check recipients in the mail survey than in the telephone survey. A total of 769 surveys were returned for a response rate of 42 percent.

Findings across the four phases of the research are highly consistent. The study findings and the conclusions and recommendations presented in this Executive Summary are based on the consolidated results of all four phases.

## STUDY FINDINGS BY OBJECTIVE

### Describe the Characteristics of Federal Benefit Check Recipients

1. Based on the secondary data review, SSA check recipients represent most of the Federal benefit check recipients (70 percent); the majority of these recipients are retirees or their dependents. SSI check recipients are the next largest segment (20 percent). VA (6 percent), OPM (3 percent), and RRB (1 percent) check recipients together account for the remaining 10 percent. OPM and RRB check recipients primarily receive pension benefits. VA check recipients most often receive disability payments or a combination of both pension and disability payments.
2. The secondary data review and statistics provided by the FMS<sup>1</sup> indicate that as of February 1997, 65 percent of SSA Title II recipients, 32 percent of SSI recipients, 58 percent of VA recipients, 76 percent of OPM recipients, and 64 percent of RRB recipients receive their Federal benefit payments via EFT. A large part of OPM's success in using EFT is attributed to the EFT marketing campaigns targeted at Federal workers who then retire and continue to use direct deposit. SSI has the lowest rate of use for EFT at 32 percent. However, it is worth noting that more disability beneficiaries than retirement or SSI beneficiaries currently receive their Federal benefit payments by direct deposit.
3. Because most Federal benefit check recipients receive SSA or other retirement moneys, the characteristics of benefit check recipients overall closely match the characteristics of SSA beneficiaries. According to the telephone survey results, most are 65 or older (73 percent), white non-Hispanic (84 percent) with a high school education or less (65 percent). The gender of recipients is almost equally divided, male (51 percent) and female (49 percent). Most are married (56 percent), but because of their age, few have dependent children under 18 living with them (13 percent). Since the mail survey respondents include more SSI check recipients, respondents to this survey are younger (61 percent are 65 years or older), less often white non-Hispanic (70 percent) and more often black non-Hispanic (17 percent) and Hispanic (7 percent), lower educated (71 percent have a high school education or less), more often female (54 percent) and more often have children in their household (17 percent). However, even with these differences, Federal benefit check recipients are largely white non-Hispanic seniors.
4. Characteristics of benefit check recipients from different programs vary considerably according to results from all four phases of the research. For instance, telephone and mail survey respondents who are disability check recipients are primarily male ( 85 percent telephone versus 80 percent mail), while those who are SSI check recipients are predominantly female (63 percent telephone versus 72 percent mail). SSI check recipients from the telephone and mail surveys are also much younger (mean of 58 and 57 years, respectively), more urban (40 percent telephone versus 44 percent mail), less

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<sup>1</sup> Statistics supplied by the FMS for EFT payments as of February 1997.

likely to have completed high school (46 percent telephone versus 53 percent mail) and more likely to be of a racial or ethnic minority (33 percent telephone versus 49 percent mail) than retirement check or disability check recipients. SSI check recipients interviewed in the telephone survey are also much less likely to be married (19 percent) than retirement check and disability check recipients. Due to the requirements for program benefits, SSI check recipients have the lowest household income of all telephone and mail survey respondents (mean of \$12,000 and \$10,600, respectively). Disability check recipients, in contrast, have the highest household annual income (mean of \$35,800 and \$26,100, respectively). The mean income for Federal retirement check recipients surveyed by telephone and mail is \$28,500 and \$21,500, respectively.

5. Because Phases 2, 3, and 4 of the research were conducted in English only, virtually all respondents speak English as their primary language (98 percent of telephone survey respondents). No figures could be found on the number of Federal benefit check recipients who speak Spanish or another foreign language as their primary language, but it is assumed that this number is under-represented in the current research.

### **Describe Banking Relationships and Financial Habits of Federal Benefit Check Recipients and Why Some Recipients Do Not Have Bank Accounts**

1. The secondary data review suggests that approximately 13 percent of all U.S. households do not have accounts with a financial institution. Those without bank accounts are younger, of lower income, and more often a racial or ethnic minority than those with bank accounts. They also are less educated and more likely to be a single parent than those with bank accounts.
2. Overall, 18 percent of the Federal benefit check recipients interviewed in the telephone survey and 27 percent of mail survey respondents do not have bank accounts. The higher rate of unbanked individuals in the mail survey is consistent with the profile of those with no telephone, with a telephone number in another person's name, or with an unlisted telephone number, because these individuals are disproportionately low income.
3. SSI check recipients from the telephone survey, mail survey, and the focus groups are far more likely to not have a bank account (58 percent telephone versus 56 percent mail) than retirement check recipients (13 percent telephone versus 20 percent mail) or disability check recipients (13 percent telephone versus 19 percent mail). The demographic characteristics of SSI beneficiaries and the fact that many banks offer those 65 or older special senior accounts with reduced or no service fees are contributing factors to this finding.
4. Based on the focus groups, the telephone survey and the mail survey, the major reasons the unbanked do not have bank accounts are that they do not have enough money (47 percent telephone versus 67 percent mail), they do not need an account (21 percent telephone versus 27 percent mail), and that bank fees are too high (6 percent telephone versus 24 percent mail). Because many of the economically disadvantaged do not have

enough money to maintain minimum balances (or in some cases, any positive balance), service fees associated with an account often exceed the service charges of the few transactions they conduct each month when obtaining cash or money orders. Not having an account further protects them from the problems of large fees, bounced checks, and overuse of automated teller machines (ATM) (3 percent telephone versus 13 percent mail). Several unbanked consumers also cite a bad credit history (1 percent telephone versus 10 percent mail), a general distrust of financial institutions (1 percent telephone versus 0 percent mail), the desire to keep information about their financial resources private (1 percent telephone versus 4 percent mail), and fear of having their assets frozen in the event of a legal judgment (1 percent telephone versus 4 percent mail) as reasons for not having a bank account. These reasons, however, are named much less often than lack of need and concern about high bank fees.

5. Nearly all Federal benefit check recipients interviewed in the telephone and mail surveys cash their Federal benefit checks in a bank or other financial institution (94 percent telephone versus 80 percent mail). Even those without a bank account use a bank regularly to cash their Federal benefit checks (63 percent telephone versus 42 percent mail). Other places that are used regularly by the unbanked to cash their government checks are grocery stores (30 percent telephone versus 24 percent mail), check cashing outlets (CCO) (10 percent telephone versus 12 percent mail), and other retail stores (3 percent telephone versus 10 percent mail). These sources are used regularly by less than 10 percent of Federal benefit check recipients with a bank account (4 percent telephone versus 7 percent mail).

#### **Determine the Reasons for Receiving Federal Payments by Check and Identify the Obstacles to Receiving Payment by EFT**

1. Most Federal benefit check recipients from the telephone and mail surveys are aware that regular Federal benefit payments can be deposited directly (82 percent telephone versus 71 percent mail), and most feel that the sign-up procedures for direct deposit are easy (75 percent telephone versus 77 percent mail). However, few telephone survey respondents are aware, on an unaided basis, of automated or telephone sign-up procedures (less than 10 percent), indicating that perceptions of the ease of sign-up could be improved if these simplified sign-up procedures were publicized better. Still, awareness of direct deposit or the sign-up procedures for direct deposit of Federal benefit payments is not the major obstacle to increased EFT use.
2. Results from the focus groups, the telephone research, and the mail survey indicate that most Federal benefit recipients who receive their payments by check do so because they like the security of seeing a tangible payment, and they want to be certain that there are no problems with the payment delivery or amount (11 percent telephone versus 51 percent mail). These individuals are concerned that, if their payments are deposited directly, they will not know exactly when the money will be available to them and that any problems with electronic payments will be more difficult to resolve than problems with checks (7 percent telephone versus 42 percent mail). Further, check recipients fear

that the ramifications of a problem with EFT could be greater because they could incur bounced check fees and find their credit history damaged if checks are written against an account when their Federal benefit payment arrives late or not at all (2 percent telephone versus 39 percent mail).

3. Many focus group, telephone survey, and mail survey respondents concur that these risks associated with direct deposit are not necessarily offset by the benefits. These respondents feel this way because they need to go to the bank anyway to get cash and conduct other financial business (2 percent from both surveys). Thus, they do not perceive direct deposit as more convenient. Those who do not feel compelled to go to the bank dislike the idea that they would need to write more checks to get cash (2 percent of telephone survey and 1 percent of mail survey respondents).
4. Other reasons for not using direct deposit named in the focus groups, the telephone survey and the mail survey include not wanting their money to be tied up in an account that may be frozen (7 percent telephone versus 20 percent mail), not wanting other family members to know how much money they receive (1 percent telephone versus 9 percent mail), and, especially for SSI check recipients, not wanting the Federal government to know how much money they have because this could jeopardize future payments. Each of these reasons is named by a small minority of check recipients.
5. Focus group respondents discussed how to mitigate concerns about payment receipt. Some were comfortable with the concept of using an interactive voice response (IVR) system whereby they could receive their account balance automatically over the telephone at any time. Others were uncomfortable with this and, instead, wanted written receipt of their payment deposit either initially or, for some, monthly. All wanted a name and telephone number to contact if there should be a problem with their payment deposit.

### **Measure Interest in a New EFT Delivery System**

1. Many current benefit check recipients from the focus groups like the idea of their Federal benefit payments going directly to an account that can be accessed with a personalized card at an ATM machine or used to withdraw cash at selected stores. However, they have concerns about how the program would work and whether there would be charges for this type of program. Interest in the program definitely declines sharply if fees will be associated with using the card.
2. Telephone survey and mail survey results indicate that interest in using this type of program among the unbanked is limited (29 percent telephone versus 27 percent mail) are somewhat or very likely to sign up for it if available. This figure is based on the assumption that all unbanked check recipients are aware of the program and understand how it works. More than half of the unbanked interviewed in the telephone survey (52 percent) indicate that they are not at all likely to sign up for this type of program, and more than half of both banked (57 percent) and unbanked (52 percent) mail survey

respondents say they probably or definitely would not participate in this program. In pilot tests in selected markets (Baltimore, Houston, Dallas/Fort Worth), actual voluntary enrollment rates for similar programs were about 5 percent or less. Thus, the availability of an account accessible by a debit card alone is not likely to affect EFT participation significantly among Federal benefit check recipients.

3. If such a debit card program is introduced, Federal benefit check recipients from the telephone survey prefer the account access points to be a post office (40 percent are likely to use) or grocery store (36 percent are likely to use). Focus group respondents expressed a strong preference for grocery stores, but mail survey respondents strongly prefer the post office (70 percent are likely to use). Check cashing services are less preferred by focus group, telephone survey, and mail survey respondents (30 percent telephone versus 13 percent mail are likely to use) because they are located mainly in urban areas and are perceived as being less safe than grocery stores.

### **Determine Most Effective Messages for Encouraging Direct Deposit Among Current Federal Benefit Check Recipients**

1. As identified in all four phases of the research, the two primary advantages of direct deposit are safety and convenience. Many focus group, telephone survey, and mail survey respondents believe direct deposit is safer because the payment cannot be lost or stolen in the mail (24 percent telephone versus 67 percent mail), and check recipients do not need to go to the bank on days when the payment is delivered (13 percent telephone versus 38 percent mail). Direct deposit is perceived to be more convenient because check recipients can go to the bank when they want (23 percent telephone versus 27 percent mail), and their payment will be received by the bank even if they are sick or out of town (6 percent telephone versus 56 percent mail). SSI check recipients and retired check recipients from the focus groups who live in unsafe areas are especially concerned about the safety issue because thefts from mailboxes or from people traveling to and from the bank are commonplace. Few focus group, telephone survey, or mail survey respondents recognize earlier access to their money as a benefit (5 percent telephone versus 17 percent mail). Most focus group, telephone survey, and mail survey respondents also do not recognize reliable receipt of the payment as a benefit (less than 1 percent name as an advantage) because they have not had problems receiving their checks by mail, and they have no experience upon which to judge the reliability of EFT.
2. Six potential messages were tested in the telephone survey to determine which would be most effective in convincing Federal benefit check recipients to have their Federal payments deposited directly into their account. All six were compelling to a majority of check recipients. Most convincing were the messages that direct deposit is safer because there is less chance that the money will be lost or stolen (75 percent find somewhat or very convincing), and that with direct deposit, the money will be in the recipients' accounts even when they are out of town, sick, or cannot get to the bank (75 percent find somewhat or very convincing). Knowing when the money will be available, going to the bank only when they want to, ease of sign-up, and earlier access

to the money are all convincing but to a lesser degree (59 to 65 percent find somewhat or very convincing).

3. Reactions are mixed among Federal benefit check recipients who are aware of the mandatory EFT law. More check recipients from the telephone survey and mail survey object to this law (47 percent telephone versus 39 percent mail slightly or strongly object to it) than support it (28 percent telephone versus 29 percent mail slightly or strongly support it). Many focus group respondents feel that it is good for the government to want to process payments more cost effectively and efficiently, but they resent the government's telling them what to do. Many check recipients from the focus groups also feel that if all payments are made electronically, the government or the banks will be making money at the expense of the consumer. Additionally, some are concerned that bank fees resulting from EFT of their government payments will be an unwelcome cost or, in the case of the unbanked, that they will be forced to open an account. Thus, information about this law needs to address consumer concerns about these issues.

### **Determine the Most Effective Vehicles for Communicating the Benefits of Direct Deposit to Federal Benefit Check Recipients**

1. Based on the focus group and telephone survey results, the most common way that Federal benefit check recipients have learned about direct deposit to date is from printed inserts included with their checks (53 percent). No other vehicles, including signs at Federal agencies or financial institutions (11 to 12 percent), articles in newspapers or magazines (4 percent), information on television or radio (6 percent), and even word of mouth from friends, family, and coworkers (12 percent) approximate this level of awareness.
2. Most Federal benefit check recipients interviewed in the focus groups, telephone survey, and mail survey feel that inserts with their checks are a very effective way of reaching them, and they think the Federal government should continue to use this vehicle (28 percent telephone versus 76 percent mail). They also strongly suggest that the Federal government consider sending them mail about direct deposit separately from their checks (36 percent telephone versus 56 percent mail). A variety of other sources are suggested as ways to reach different audiences but at much lower frequency. These other vehicles include advertising, informational articles, and interviews in media, such as television (14 percent telephone versus 41 percent mail), newspapers (7 percent telephone versus 32 percent mail), radio (4 percent telephone versus 17 percent mail), and magazines (1 percent telephone versus 5 percent mail).
3. The Federal government is considered a highly credible source of information on direct deposit, and Federal benefit check recipients in the focus groups say they would pay attention to information provided by the Federal government. Check recipients interviewed in the focus groups also feel that their local banks and organizations, such as veterans' groups, senior citizen groups, or trade unions, are credible sources of

information; but the endorsement of these organizations is not necessary for the messages to be believable. Telephone and mail survey respondents concur that information disseminated through organizations they belong to is an effective way to reach them with information about the mandatory EFT law (4 percent telephone versus 22 percent mail).

## CONCLUSIONS

1. The Federal government should give top priority to marketing direct deposit to retired Federal benefit check recipients, including those receiving SSA, VA pension, Federal civil service retirement, and railroad retirement checks. The Federal government should give top priority to this segment primarily because of its size, but also because of the relative ease of persuading these check recipients to sign up for direct deposit. Messages used to convince this segment to obtain direct deposit should emphasize safety and convenience equally and, to a lesser extent, freedom to go to the bank when they desire. The Federal government should use direct mail primarily, including both check stuffers and information sent separately from the checks, to communicate these messages. The Federal government should supplement direct mail with targeted print and broadcast media, as well as materials for organizations serving senior citizens.
2. A second priority segment should be disabled check recipients. This segment is ranked next because the idea of direct deposit is generally appealing to them, making them a relatively easy group to convert to EFT. The convenience of not having to go to a bank should be the primary message to this group. Vehicles that will be most effective in reaching this segment are printed check inserts, other direct mail, mass media aimed at their demographic group, and dissemination of information through disabled and veterans organizations.
3. Unbanked check recipients represent another priority segment for EFT education and marketing. This segment is important because it is fairly large and represents the most disadvantaged recipients. It clearly will be the most difficult segment to convert to EFT because conversion first requires establishing an account where payments can be deposited. The primary messages to communicate to this segment are the added safety of EFT and assurances that information about the account, including deposit and transaction information, will not be revealed to the Federal government or to anyone else. These messages should be communicated through check inserts, other direct mail, mass media targeted to their demographic segments, and community service organizations that serve unbanked check recipients.

In summation, Booz-Allen & Hamilton and Shugoll Research have concluded the four FMS project study phases and provide hereafter the full and comprehensive demographic results.